UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-15839

ACTIVISION BLIZZARD, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-4803544** (I.R.S. Employer Identification No.)
3100 Ocean Park Boulevard, Santa Monica, CA (Address of principal executive offices)	**90405** (Zip Code)

(310) 255-2000
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x	Accelerated Filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the registrant s Common Stock outstanding at July 25, 2013 was 1,119,457,954.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

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CAUTIONARY STATEMENT

This Quarterly Report on Form 10-Q contains, or incorporates by reference, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and include, but are not limited to: (1) projections of revenues, expenses, income or loss, earnings or loss per share, cash flow or other financial items; (2) statements of our plans and objectives, including those relating to product releases; (3) statements of future financial or operating performance;(4) statements about the completion, timing, financing, and impact of the transactions described herein; and (5) statements of assumptions underlying such statements. Activision Blizzard, Inc. (Activision Blizzard) generally uses words such as outlook, forecast, will, could, should, would, to be, plans, believes, may, expects, intends, anticipates, estimate, future, positioned, potential, project, remain, scheduled, set to, subject to, upcoming and other similar expressions to help identify forward-looking statements. Forward-looking statements are subject to business and economic risk, reflect management s current expectations, estimates and projections about our business, and are inherently uncertain and difficult to predict. Our actual results could differ materially. Risks and uncertainties that may affect our future results include, but are not limited to, sales levels of Activision Blizzard s titles, increasing concentration of titles, shifts in consumer spending trends, the impact of the current macroeconomic environment, Activision Blizzard s ability to predict consumer preferences, including interest in specific genres such as first-person action and massively multiplayer online games and preferences among hardware platforms, the seasonal and cyclical nature of the interactive game market, changing business models including digital delivery of content, competition including from used games and other forms of entertainment, possible declines in software pricing, product returns and price protection, product delays, adoption rate and availability of new hardware (including peripherals) and related software, particularly during the upcoming console transition, rapid changes in technology and industry standards, litigation risks and associated costs, protection of proprietary rights, maintenance of relationships with key personnel, customers, licensees, licensors, vendors, and third-party developers, including the ability to attract, retain and develop key personnel and developers that can create high quality hit titles, counterparty risks relating to customers, licensees, licensors and manufacturers, domestic and international economic, financial and political conditions and policies, foreign exchange rates and tax rates, the identification of suitable future acquisition opportunities and potential challenges associated with geographic expansion, capital market risks, the possibility that expected benefits related to the pending transactions may not materialize as expected, the pending transactions not being timely completed, if completed at all, and the other factors identified in Risk Factors included in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as amended, and this Quarterly Report on Form 10-Q. The forward-looking statements contained herein are based upon information available to us as of the date of this Quarterly Report on Form 10-Q and we assume no obligation to update any such forward-looking statements. Although these forward-looking statements are believed to be true when made, they may ultimately prove to be incorrect. These statements are not guarantees of our future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and may cause actual results to differ materially from current expectations.

Activision Blizzard Inc. s names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or trade names of Activision Blizzard. All other product or service names are the property of their respective owners.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in millions, except share data)

	At June 30, 2013	At December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 4,341	$ 3,959
Short-term investments	205	416
Accounts receivable, net of allowances of $211 and $332 at June 30, 2013 and December 31, 2012, respectively	117	707
Inventories, net	131	209
Software development	304	164
Intellectual property licenses	11	11
Deferred income taxes, net	335	487
Other current assets	185	321
Total current assets	5,629	6,274
Long-term investments	9	8
Software development	35	129
Intellectual property licenses		30
Property and equipment, net	132	141
Other assets	10	11
Intangible assets, net	61	68
Trademark and trade names	433	433
Goodwill	7,102	7,106
Total assets	$ 13,411	$ 14,200
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 139	$ 343
Deferred revenues	665	1,657
Accrued expenses and other liabilities	389	652
Total current liabilities	1,193	2,652
Deferred income taxes, net	77	25
Other liabilities	206	206
Total liabilities	1,476	2,883
Commitments and contingencies (Note 12)		
Shareholders equity:		
Common stock, $0.000001 par value, 2,400,000,000 shares authorized, 1,119,015,481 and 1,111,606,087 shares issued at June 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital	9,541	9,450
Retained earnings	2,456	1,893
Accumulated other comprehensive income (loss)	(62)	(26)
Total shareholders equity	11,935	11,317
Total liabilities and shareholders equity	$ 13,411	$ 14,200

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(Amounts in millions, except per share data)

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net revenues				
Product sales	$ 727	$ 798	$ 1,717	$ 1,672
Subscription, licensing, and other revenues	323	277	658	575
Total net revenues	1,050	1,075	2,375	2,247
Costs and expenses				
Cost of sales product costs	179	229	440	486
Cost of sales online subscriptions	54	71	111	140
Cost of sales software royalties and amortization	38	57	99	88
Cost of sales intellectual property licenses	14	20	52	27
Product development	123	145	247	259
Sales and marketing	116	136	223	216
General and administrative	96	190	186	291
Total costs and expenses	620	848	1,358	1,507
Operating income	430	227	1,017	740
Investment and other income (expense), net		2	3	3
Income before income tax expense	430	229	1,020	743
Income tax expense	106	44	240	174
Net income	$ 324	$ 185	$ 780	$ 569
Earnings per common share				
Basic	$ 0.28	$ 0.16	$ 0.68	$ 0.50
Diluted	$ 0.28	$ 0.16	$ 0.68	$ 0.50
Weighted-average number of shares outstanding				
Basic	1,118	1,109	1,116	1,115
Diluted	1,127	1,115	1,124	1,121
Dividends per common share	$	$	$ 0.19	$ 0.18

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Amounts in millions)

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Net income	$ 324	$ 185	$ 780	$ 569
Other comprehensive income (loss):				
Foreign currency translation adjustment	33	(91)	(37)	(53)
Unrealized gains on investments, net of deferred income taxes of $0 million for the three and six months ended June 30, 2013 and 2012			1	1
Other comprehensive income (loss)	$ 33	$ (91)	$ (36)	$ (52)
Comprehensive income	$ 357	$ 94	$ 744	$ 517

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in millions)

	For the Six Months Ended June 30, 2013	For the Six Months Ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 780	$ 569
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	209	29
Depreciation and amortization	47	45
Amortization and write-off of capitalized software development costs and intellectual property licenses (1)	126	102
Stock-based compensation expense (2)	50	49
Excess tax benefits from stock option exercises	(5)	(3)
Changes in operating assets and liabilities:		
Accounts receivable, net	583	421
Inventories, net	76	15
Software development and intellectual property licenses	(140)	(146)
Other assets	132	246
Deferred revenues	(974)	(564)
Accounts payable	(197)	(228)
Accrued expenses and other liabilities	(253)	(290)
Net cash provided by operating activities	434	245
Cash flows from investing activities:		
Proceeds from maturities of available-for-sale investments	229	253
Purchases of available-for-sale investments	(26)	(302)
Capital expenditures	(36)	(26)
Decrease in restricted cash	9	1
Net cash provided by (used in) investing activities	176	(74)
Cash flows from financing activities:		
Proceeds from issuance of common stock to employees	51	23
Tax payment related to net share settlements of restricted stock rights	(16)	(3)
Repurchase of common stock		(315)
Dividends paid	(216)	(204)
Excess tax benefits from stock option exercises	5	3
Net cash used in financing activities	(176)	(496)
Effect of foreign exchange rate changes on cash and cash equivalents	(52)	(54)
Net increase (decrease) in cash and cash equivalents	382	(379)
Cash and cash equivalents at beginning of period	3,959	3,165
Cash and cash equivalents at end of period	$ 4,341	$ 2,786

(1) Excludes deferral and amortization of stock-based compensation expense.

(2) Includes the net effects of capitalization, deferral, and amortization of stock-based compensation expense.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

For the Six Months Ended June 30, 2013

(Unaudited)

(Amounts in millions)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2012	**1,112**	**$**	**$ 9,450**	**$ 1,893**	**$ (26)**	**$ 11,317**
Components of comprehensive income (loss):						
Net income				780		780
Other comprehensive income (loss)					(36)	(36)
Issuance of common stock pursuant to employee stock options	5		51			51
Issuance of common stock pursuant to restricted stock rights	3					
Restricted stock surrendered for employees tax liability	(1)		(16)			(16)
Tax benefit associated with employee stock options			3			3
Stock-based compensation expense related to employee stock options and restricted stock rights			53			53
Dividends ($0.19 per common share) (See Note 11)				(217)		(217)
Balance at June 30, 2013	**1,119**	**$**	**$ 9,541**	**$ 2,456**	**$ (62)**	**$ 11,935**

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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ACTIVISION BLIZZARD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of business and basis of consolidation and presentation

Description of Business

Activision Blizzard, Inc. is a worldwide online, personal computer (PC), video game console, handheld, and mobile game publisher. The terms Activision Blizzard, the Company, we, us, and our are used to refer collectively to Activision Blizzard, Inc. and its subsidiaries. We maintai significant operations in the United States, Canada, the United Kingdom, France, Germany, Ireland, Italy, Sweden, Spain, the Netherlands, Australia, South Korea and China.

Activision Blizzard is the result of the 2008 business combination (Business Combination) by and among Activision, Inc., Sego Merger Corporation, a wholly-owned subsidiary of Activision, Inc., Vivendi S.A. (Vivendi), VGAC LLC, a wholly-owned subsidiary of Vivendi, and Vivendi Games, Inc. (Vivendi Games), a wholly-owned subsidiary of VGAC LLC. In connection with the consummation of the Business Combination, Activision, Inc. was renamed Activision Blizzard, Inc.

The common stock of Activision Blizzard is traded on The NASDAQ Stock Market under the ticker symbol ATVI. Vivendi owned approximately 61% of Activision Blizzard s outstanding common stock at June 30, 2013.

Based upon our current organizational structure, we have three operating segments as follows:

Activision Publishing, Inc.

Activision Publishing, Inc. (Activision) is a leading international developer and publisher of interactive software products and content. Activision develops games based on both internally-developed and licensed intellectual property. Activision markets and sells games we develop and, through our affiliate label program, games developed by certain third-party publishers. We sell games both through retail channels and by digital download. Activision currently offers games that operate on the Sony Computer Entertainment, Inc. (Sony) PlayStation 3 (PS3), Nintendo Co. Ltd. (Nintendo) Wii (Wii) and Nintendo Wii U (Wii U), and Microsoft Corporation (Microsoft) Xbox 360 (Xbox 360) console systems; the Nintendo Dual Screen (DS) and Nintendo 3DS (3DS) handheld game systems; the PC; and other handheld and mobile devices. We are investing in, developing, and planning to release games for Sony s and Microsoft s next-generation console systems, the PlayStation 4 (PS4) and Xbox One (Xbox One), respectively.

Blizzard Entertainment, Inc.

Blizzard Entertainment, Inc. (Blizzard) is a leader in the subscription-based massively multi-player online role-playing game (MMORPG) category in terms of both subscriber base and revenues generated through its World of Warcraft® franchise, which it develops, hosts and supports. Blizzard also develops, markets and sells role-playing action and strategy PC-based computer games, including games in the multiple-award winning Diablo® and StarCraft® franchises. In addition, Blizzard maintains a proprietary online-game related service, Battle.net®. Blizzard distributes its products and generates revenues worldwide through various means, including: subscriptions; sales of prepaid subscription cards; revenue from value-added services such as realm transfers, faction changes, and other character customizations within the *World of Warcraft* gameplay; retail sales of physical boxed products; online download sales of PC products; and licensing of software to third-party or related party companies that distribute *World of Warcraft, Diablo III,* and *StarCraft II* products.

Activision Blizzard Distribution

Activision Blizzard Distribution (Distribution) consists of operations in Europe that provide warehousing, logistical and sales distribution services to third-party publishers of interactive entertainment software, our own publishing operations, and manufacturers of interactive entertainment hardware.

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Basis of Consolidation and Presentation

Activision Blizzard prepared the accompanying unaudited condensed consolidated financial statements in accordance with the rules and regulations of the Securities and Exchange Commission for interim reporting. As permitted under those rules and regulations, certain notes or other information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted if they substantially duplicate the disclosures contained in the annual audited consolidated financial statements. The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012, as amended. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair statement of our financial position and results of operations in accordance with U.S. GAAP have been included in the accompanying unaudited condensed consolidated financial statements.

The accompanying condensed consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated. The condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The Company considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures.

Results of Adjustments

During the three months ended June 30, 2013, we identified through our internal processes that, in previous years, we erroneously under-accrued for certain indirect taxes for two countries in our Europe region. We performed an evaluation under SEC Staff Accounting Bulletin No. 108 and concluded the effect of this error was immaterial to prior years financial statements as well as the projected full-year 2013 financial statements. As such, during the three months ended June 30, 2013, we recorded an adjustment in our condensed consolidated statements of operations which reduced Total net revenues by $8 million, Investment and other income (expense), net by $1 million, Income before income tax expense by $9 million, and Net income by $7 million. This adjustment reduced net revenues and income from operations before income tax expense by $8 million and $9 million, respectively, in each of our Blizzard segment, Europe region, and online subscriptions platform, as presented in footnote 7 of the notes to the condensed consolidated financial statements. The adjustment increased Accrued expenses and other liabilities on our condensed consolidated balance sheet by $9 million and represents a correction of an error. Operating cash flows will be impacted by $9 million in the period we settle the liability. The adjustment related to prior periods net income as follows: (i) approximately $1 million for the quarter ended March 31, 2013; (ii) approximately $1 million for each quarter of 2012 (totaling approximately $4 million for the year ended December 31, 2012); (iii) approximately $2 million for the year ended December 31, 2011; and (iv) less than $1 million for the year ended December 31, 2010. Earnings per basic and diluted share were affected by less than $0.01 as a result of recording this adjustment.

During the three months ended June 30, 2012, we identified through our internal processes that, in previous years, we erroneously over-recognized revenue for a country in our Europe region. We performed an evaluation under SEC Staff Accounting Bulletin No. 108 and concluded the effect of this error was immaterial to prior years financial statements as well as the projected full-year 2012 financial statements. As such, during the three months ended June 30, 2012, we recorded an adjustment in our condensed consolidated statements of operations which reduced Total net revenues by $11 million and Net income by $8 million. This adjustment reduced net revenues and income from operations before income tax expense by $11 million in each of our Blizzard segment, Europe region, and online subscriptions platform, as presented in footnote 7 of the notes to the condensed consolidated financial statements. The adjustment increased Deferred revenues on our condensed consolidated balance sheet by $11 million and represents a correction of an error. There was no impact to operating cash flows. The adjustment related to prior periods net income as follows: (i) approximately $1 million for the quarter ended March 31, 2012; (ii) less than $1 million for each quarter of 2011 (totaling approximately $3 million for the year ended December 31, 2011); (iii) approximately $2 million for the year ended December 31, 2010; and (iv) approximately $3 million for periods prior to the year ended December 31, 2010. Earnings per basic and diluted share were affected by less than $0.01 as a result of recording this adjustment.

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2. Inventories, net

Our inventories, net consist of the following (amounts in millions):

	At June 30, 2013	At December 31, 2012
Finished goods	$ 90	$ 151
Purchased parts and components	41	58
Inventories, net	$ 131	$ 209

3. Intangible assets, net

Intangible assets, net consist of the following (amounts in millions):

	At June 30, 2013			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	3 - 10 years	$ 98	$ (89)	$ 9
Internally-developed franchises	11 - 12 years	309	(257)	52
Total definite-lived intangible assets		$ 407	$ (346)	$ 61
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433

	At December 31, 2012			
	Estimated useful lives	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired definite-lived intangible assets:				
License agreements and other	3 - 10 years	$ 98	$ (88)	$ 10
Internally-developed franchises	11 - 12 years	309	(251)	58
Total definite-lived intangible assets		$ 407	$ (339)	$ 68
Acquired indefinite-lived intangible assets:				
Activision trademark	Indefinite			386
Acquired trade names	Indefinite			47
Total indefinite-lived intangible assets				$ 433

Amortization expense of intangible assets was $3 million and $6 million for the three and six months ended June 30, 2013, respectively. Amortization expense of intangible assets was $2 million and $5 million for the three and six months ended June 30, 2012, respectively.

At June 30, 2013, future amortization of definite-lived intangible assets is estimated as follows (amounts in millions):

2013 (remaining six months)	$	20
2014		18
2015		10
2016		6
2017		3
Thereafter		4
Total	$	61

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4. Income taxes

The income tax expense of $106 million for the three months ended June 30, 2013 reflected an effective tax rate of 24.7%, which is higher than the effective tax rate of 19.2% for the three months ended June 30, 2012. This is primarily due to a decrease in the proportional amount of earnings in foreign jurisdictions with a relatively lower statutory rate (as compared to domestic earnings with a relatively higher statutory rate).

The effective tax rate of 24.7% for the three months ended June 30, 2013 differed from the U.S. statutory rate of 35.0%, primarily due to foreign income taxes levied at relatively lower rates, the geographic mix in profitability, recognition of federal and California research and development (R&D) credits, and the federal domestic production deduction.

Our tax expense of $240 million for the six months ended June 30, 2013 reflected an effective tax rate of 23.5% compared to an effective tax rate of 23.4% for the six months ended June 30, 2012. For the six months ended June 30, 2013, the geographic mix of earnings, as compared to the six months ended June 30, 2012, were proportionally lower in foreign jurisdictions with a relatively lower statutory rate, as compared to domestic earnings with a relatively higher statutory rate, resulting in an increase in the effective rate over the prior period. However, the impact of this increase was mostly offset by the recognition of the retroactive reinstatement of the federal R&D tax credit for the tax year ended December 31, 2012, which was enacted in the first quarter of 2013. The Company recorded a benefit of $12 million related to the federal R&D tax credit for the tax year ended December 31, 2012 as a discrete item in the first quarter of 2013.

The overall effective income tax rate for the year could be different from the effective tax rate for the three and six months ended June 30, 2013 and will be dependent, in part, on our profitability for the remainder of the year. In addition, our effective income tax rates for the remainder of 2013 and future periods will depend on a variety of factors, such as changes in the mix of income by tax jurisdiction, applicable accounting rules, applicable tax laws and regulations, rulings and interpretations thereof, developments in tax audits and other matters, and variations in the estimated and actual level of annual pre-tax income or loss. Further, the effective tax rate could fluctuate significantly on a quarterly basis and could be adversely affected by the extent that income (loss) before income tax expenses (benefit) is lower than anticipated in foreign regions, where taxes are levied at relatively lower statutory rates, and/or higher than anticipated in the United States, where taxes are levied at relatively higher statutory rates.

The Internal Revenue Service is currently examining Activision Blizzard s federal tax returns for the 2008 and 2009 tax years and Vivendi Games s tax returns for the 2005 through 2008 tax years. While Vivendi Games s results for the period January 1, 2008 through July 9, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Vivendi or its affiliates, Vivendi Games s results for the period July 10, 2008 through December 31, 2008 are included in the consolidated federal and certain foreign, state and local income tax returns filed by Activision Blizzard. Additionally, the Company has several state and non-U.S. audits pending. Although the final resolution of the Company s global tax disputes is uncertain, based on current information, in the opinion of the Company s management, the ultimate resolution of these matters will not have a material adverse effect on the Company s consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company s global tax disputes could have a material adverse effect on our business and results of operations in the period in which the matters are ultimately resolved.

5. Software development and intellectual property licenses

The following table summarizes the components of our capitalized software development costs and intellectual property licenses (amounts in millions):

	At June 30, 2013	At December 31, 2012
Internally developed software costs	$ 167	$ 159
Payments made to third-party software developers	172	134
Total software development costs	$ 339	$ 293
Intellectual property licenses	$ 11	$ 41

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Amortization, write-offs and impairments of capitalized software development costs and intellectual property licenses are comprised of the following (amounts in millions):

	Three Months Ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Amortization of capitalized software development costs and intellectual property licenses	$ 46	$ 68	$ 108	$ 99
Write-offs and impairments		6	26	8

6. Fair value measurements

Fair Value Measurements on a Recurring Basis

Financial Accounting Standards Board (FASB) literature regarding fair value measurements for financial and non-financial assets and liabilities establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities;

- Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets or other inputs that are observable or can be corroborated by observable market data; and

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The table below segregates all financial assets that are measured at fair value on a recurring basis (which means they are so measured at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date (amounts in millions):

	Fair Value Measurements at June 30, 2013 Using	
	Quoted Prices in Active	Significant

	As of June 30, 2013	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Recurring fair value measurements:					
Money market funds	$ 4,173	$ 4,173	$	$	Cash and cash equivalents
Foreign government treasury bills	33	33			Cash and cash equivalents
U.S. treasuries and government agency securities	195	195			Short-term investments
Auction rate securities (ARS)	9			9	Long-term investments
Total recurring fair value measurements	$ 4,410	$ 4,401	$	$ 9	

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	As of December 31, 2012	Fair Value Measurements at December 31, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance Sheet Classification
Recurring fair value measurements:					
Money market funds	$ 3,511	$ 3,511	$	$	Cash and cash equivalents
U.S. treasuries and government agency securities	387	387			Short-term investments
Corporate bonds	11	11			Short-term investments
ARS	8			8	Long-term investments
Total recurring fair value measurements	$ 3,917	$ 3,909	$	$ 8	

The following tables provide a reconciliation of the beginning and ending balances of our financial assets classified as Level 3 by major categories (amounts in millions) at June 30, 2013 and 2012, respectively:

	Level 3: ARS (a)	Total financial assets at fair value
Balance at December 31, 2012	$ 8	$ 8
Total unrealized gains included in other comprehensive income	1	1
Balance at June 30, 2013	$ 9	$ 9

	Level 3: ARS	Total financial assets at fair